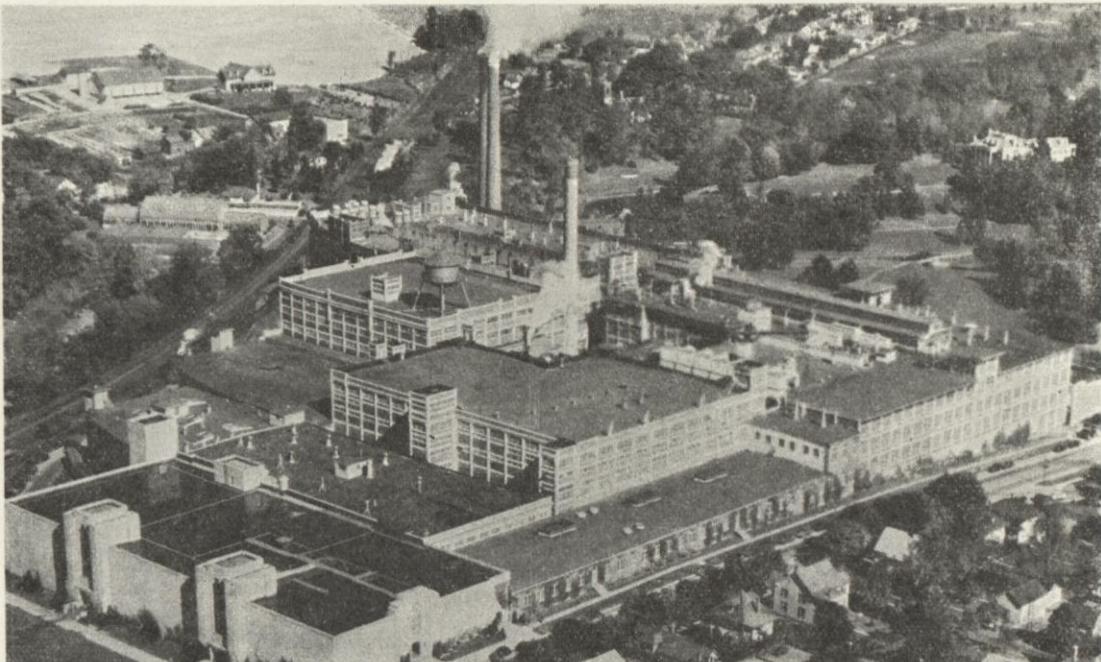


ANNUAL REPORT

DECEMBER 31, 1940



Home of Hershey's Products

HERSHEY CHOCOLATE CORPORATION
HERSHEY, PENNA.

HERSHEY CHOCOLATE CORPORATION
EXECUTIVE OFFICES, HERSHY, PA.

OFFICERS

| | |
|-----------------|-----------------------|
| M. S. HERSHY | Chairman of the Board |
| W. F. R. MURRIE | President |
| E. F. HERSHY | Treasurer |
| W. S. CROUSE | Secretary |
| O. E. BORDNER | Comptroller |

DIRECTORS

| | |
|-----------------|-----------------------|
| M. S. HERSHY | Hershey, Pa. |
| W. F. R. MURRIE | Hershey, Pa. |
| E. F. HERSHY | Hershey, Pa. |
| L. W. MAJER | Hershey, Pa. |
| P. A. STAPLES | Central Hershey, Cuba |
| W. S. CROUSE | Hershey, Pa. |
| O. E. BORDNER | Hershey, Pa. |

TRANSFER AGENT
CITY BANK FARMERS TRUST CO.

REGISTRAR
GUARANTY TRUST COMPANY OF NEW YORK

AUDITORS
ARTHUR ANDERSEN & CO., NEW YORK, N. Y.

HERSHEY'S

REG. U. S. PAT. OFF.



Our Stockholders, as individuals, can greatly advance the Company's interest and their own, by using HERSEY'S Products in their homes and recommending them to others.

HERSHEY CHOCOLATE

(A DELAWARE CORPORATION)

BALANCE SHEET - 1940

ASSETS

CURRENT ASSETS:

| | |
|---|-----------------|
| Cash..... | \$ 3,735,071.19 |
| Accounts receivable | \$ 1,764,321.01 |
| Less - Reserve for bad debts and discounts | 126,741.24 |
| | 1,637,579.77 |
| Raw materials, goods in process and finished goods; valued at the lower of cost or market | 9,528,094.95 |
| Total current assets | \$14,900,745.91 |

SUPPLY INVENTORIES, PREPAID EXPENSES, ETC.:

| | |
|--|---------------|
| Supplies and repair parts..... | \$ 325,503.28 |
| Prepaid shipping expenses, insurance, salesmen's advances, etc. | 241,724.30 |
| | 567,227.58 |

PLANT AND PROPERTY:

| Particulars | Cost | Reserves for Depreciation | Net |
|-----------------------------------|------------------------|---------------------------|------------------------|
| Land..... | \$ 115,155.40 | \$ - | \$ 115,155.40 |
| Buildings and improvements | 8,670,516.80 | 3,736,969.34 | 4,933,547.46 |
| Machinery, equipment and fixtures | 12,779,319.45 | 8,266,560.07 | 4,512,759.38 |
| | <u>\$21,564,991.65</u> | <u>\$12,003,529.41</u> | <u>\$ 9,561,462.24</u> |
| Construction in progress | | | 73,787.22 |
| | | | 9,635,249.46 |
| | | | <u>\$25,103,222.95</u> |

NOTES:

- (1) In December, 1940 the Corporation adopted "The Hershey Retirement Plan" which provides for the establishment of a pension fund. Participants in the plan contribute with the Corporation to the premiums for current service and all past service for a period of 20 years, but such payments may be accelerated subject to certain restrictions. The Corporation established a fund of \$1,900,000 and a reserve for past service annuities of officers and employees of such amount was established by the end of 1940. The Corporation reserves the right to change or discontinue the Plan at any time.
- (2) The Convertible preference stock is entitled to cumulative dividends at the rate of \$4.00 per share per annum. Upon any distribution of capital assets, the Convertible preference stock is entitled to receive \$50.00 per share (or its equivalent in treasury shares, at December 31, 1940 or \$12,438,356.00 in excess of the stated value of such shares) and accumulate the same as common stock in any distribution of the balance until the Convertible preference stock shall have received a dividend of \$50.00 per share. In their opinion, there are no restrictions upon the surplus of the Company by reason of the excess of the preference value of such shares. The surplus accounts, however, are restricted to the extent of the cost of the treasury stock.

ATE CORPORATION

ORPORATION)

DECEMBER 31, 1940

LIABILITIES

CURRENT LIABILITIES:

| | |
|--|-----------------|
| Accounts payable and accrued liabilities | \$ 1,337,758.77 |
| Dividends payable February 15, 1941 on convertible preference and common stock | 1,021,999.75 |
| Reserve for Federal and state taxes (subject to review by taxing authorities) | 2,447,454.11 |
| Total current liabilities..... | \$ 4,807,212.63 |

RESERVE FOR PAST SERVICE ANNUITIES OF OFFICERS AND EMPLOYEES (Note 1)

1,521,700.00

CAPITAL STOCK AND SURPLUS (Note 2):

Convertible preference stock (without par value) -

Authorized and issued, 350,000 shares of which 78,649 shares

have been converted into common stock

Issued and outstanding, 271,351 shares (including 17,507 shares held in treasury) at stated value

\$ 271,351.00

Common stock (without par value) -

Authorized, 1,000,000 shares of which 271,351 shares are reserved for conversion of convertible preference stock

Issued and outstanding, 728,649 shares (including 42,900 shares held in treasury) at stated value

728,649.00

\$ 1,000,000.00

3,297,212.48

18,272,545.53

\$22,569,758.01

Surplus at organization.....

Earned surplus

Deduct - Treasury stock, at cost -

Convertible preference stock -- 17,507 shares \$ 1,287,635.19

Common stock -- 42,900 shares 2,507,812.50

3,795,447.69

18,774,310.32

\$25,103,222.95

of retirement annuities to the participants. Eligible officers and employees of the Corporation electing to participate in the annuity premiums are to be paid by the Corporation. These past service annuity premiums may be paid over a period of years. The estimates that the reserve requirement at December 31, 1940 for past service annuities on an actuarial basis amounts to \$1,521,700.00. This amount will be charged to profit and loss of \$150,000 and a charge to the reserve account. Premiums for current service will be charged to profit and loss. The

, plus an extra dividend of \$1.00 per share in any year in which dividends are declared (or paid) on the common stock. The dividends will be paid in the aggregate to \$12,692,200.00 on the basis of the Convertible preference shares outstanding, exclusive of the unconverted and unpaid dividends (if any) before any distribution to the common stock, and shares equally with the total of \$100.00 per share and accumulated and unpaid dividends (if any). Counsel for the Company have advised that, in the event of the liquidation of the Convertible preference shares in any distribution of the capital assets of the Company over the stated period.

HERSHEY CHOCOLATE CORPORATION

SUMMARY OF PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 1940

| Particulars | Amount |
|--|------------------------|
| GROSS PROFIT ON SALES (Note) | \$13,792,078.47 |
| SHIPPING, SELLING, ADMINISTRATIVE AND GENERAL EXPENSES (Note) | 6,142,934.87 |
| Net profit from operations | <u>\$ 7,649,143.60</u> |
| OTHER INCOME: | |
| Profit from scrap and creamery products, discounts and other miscellaneous income, less miscellaneous deduc- tions (\$60,253.92) | 315,512.42 |
| Net profit before provision for income taxes | <u>\$ 7,964,656.02</u> |
| PROVISION FOR INCOME TAXES: | |
| Commonwealth of Pennsylvania income tax | \$ 264,330.67 |
| Federal income tax | 1,792,278.88 |
| Federal excess profits tax | (none) 2,056,609.55 |
| Net profit carried to earned surplus | <u>\$ 5,908,046.47</u> |

NOTE: Cost and expenses include provision for depreciation on plant and equipment in the amount of \$782,444.59. Shipping, selling, administrative and general expenses include provision for past service annuities of officers and employees of \$150,000.00.

SUMMARY OF EARNED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1940

| | |
|--|------------------------|
| Earned surplus at December 31, 1939 | \$17,440,966.06 |
| Net profit for the year ended December 31, 1940 | 5,908,046.47 |
| Charge with respect to past service annuities of officers and employees (see Note 1 to balance sheet) | <u>\$23,349,012.53</u> |
| Dividends: | |
| Convertible preference stock | \$ 1,269,220.00 |
| Common stock | 2,057,247.00 |
| Earned surplus at December 31, 1940 | <u>\$18,272,545.53</u> |

ARTHUR ANDERSEN & CO.
67 WALL STREET, NEW YORK

To the Board of Directors,

Hershey Chocolate Corporation:

We have examined the balance sheet of Hershey Chocolate Corporation (a Delaware corporation) as of December 31, 1940, and the summaries of profit and loss and earned surplus for the year ended that date. In connection therewith we have examined or tested accounting records of the Company and other supporting evidence and have reviewed the system of internal control and the accounting procedures of the Company by methods and to the extent we deemed appropriate, but we did not make a detailed audit of the transactions.

In our opinion the accompanying balance sheet and related summaries of profit and loss and earned surplus fairly present the financial position of Hershey Chocolate Corporation at December 31, 1940, and the results of its operations for the year ended that date, in conformity with generally accepted accounting principles maintained by the Company on a basis consistent with that of the preceding year.

New York, N. Y., March 4, 1941.

ARTHUR ANDERSEN & CO.